Time for a Reality Check

Babysitting your grandchildren. Skiing the Alps. Traveling the country. Even if you love your job, you’ve probably fantasized about retirement. That’s all well and good. But don’t forget this reality check: What you do when you’re retired will be governed by what you can *afford* to do.

Making Hay

Making your retirement dreams come true is a tangible goal you should be focusing on right now. Your working years are the prime time to prepare for the retirement you want. Regardless of how close — or far away — retirement is, putting money away now lets time, tax benefits, and the power of compounding help boost your retirement savings.

Employer Plans

If you haven’t joined the retirement savings plan at work, sign up. If you *are* participating, consider upping your contribution. The money you contribute comes out of your paycheck before you can spend it — and before the IRS taxes it. So more money goes into your plan investments. If your employer matches a portion of participant contributions, make sure you’re contributing enough to get the full match.

The federal limit on elective contributions in 2014 is $17,500 (applies to 401(k), 403(b), SEPs, and 457 plans). If you are age 50 or older and your plan allows, you can add up to $5,500 in “catch-up” contributions. Additional plan limits may apply.

Individual Retirement Accounts

IRAs are another tax-advantaged way to save for retirement. If you don’t have a retirement plan at work or you already contribute the maximum amount, you might be eligible to contribute to either a traditional or a Roth IRA. There are important differences between the two types of IRAs, so be sure to choose the IRA that’s best for you.

The limit on IRA contributions for 2014 is $5,500 — plus catch-up contributions of $1,000 for the age-50-and-older crowd.